

Message Text

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ACTION NEA-11

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E.O. 11652: N/A
TAGS: EFIN, EAID, EG
SUBJ: GODE AND EGYPT - NEED FOR SOMETHING TO HAPPEN

REF: (A) PARIS 19398. (B) KUWAIT 3694.

1. AS REPORTED REF B, GODE AT CONSULTATIVE GROUP (CG) MEETING MID-JUNE EXPRESSED CONTINUED SUPPORT FOR EGYPT'S DEVELOPMENT NEEDS, BUT WITHOUT COMMITMENT OF SPECIFIC AMOUNT. GODE DELEGATE NOTED THAT LARGE LOAN EXTENDED LAST YEAR PROBABLY WOULD BE TOTALLY UTILIZED BY END OF JUNE. THIS WILL EXHAUST GODE'S \$2,000 MILLION CAPITALIZATION, VIRTUALLY ALL OF WHICH WAS USED FOR DIRECT BOP SUPPORT AND RETIREMENT OF SHORT-TERM DEBT.

2. IT EMERGED ALSO AT CG THAT IBRD AND IMF BOTH HAVE ESTIMATED EGYPTIAN UNCOVERED BOP PAYMENTS GAP FOR REST OF CY 1978 AT ABOUT \$650 MILLION. (NOTE: IBRD'S IKRAM, NOW
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IN CAIRO, HAS REMARKED TO US THAT \$900 - \$1,000 MILLION TOTAL HE CITED AT CG DOES NOT INCLUDE IMF, USAID AND OTHER FUNDS PLEDGED OR EXPECTED; THUS HIS AND IMF'S ESTIMATES OF \$600 - \$650 MILLION FOR SECOND HALF OF 1978 ARE IN ACCORD.)

3. WE NOTE WITH INTEREST FROM REF B THAT GODE HAS HELD

DIRECTORS' MEETING WHICH ADDRESSED RESULTS OF PARIS CG AND THAT GODE LEADERSHIP, AT LEAST AT TECHNICAL LEVEL, IS AWARE OF CURRENT CASH OR PROGRAM (COMMODITY) FUNDING REQUIREMENTS. GODE, HOWEVER, EVIDENTLY DOES NOT WISH TO BECOME DONOR OF LAST RESORT DESTINED TO TAKE UP RESIDUAL CASH SHORTFALL IN BOP. NEXT OCCASION ON WHICH QUESTION OF FUNDING FOR EGYPT WILL BE CONSIDERED REPORTEDLY IS GOVERNORS' MEETING EITHER IN JULY OR SEPTEMBER.

4. WHILE WE CAN SYMPATHIZE WITH MEMBER STATES' WISH TO AVOID BEING LOCKED INTO INDEFINITELY CONTINUING CASH ASSISTANCE, GODE IN PRACTICAL TERMS MUST PROVIDE SUBSTANTIAL BOP AID, WHETHER OR NOT IN SOME COMBINATION WITH PROJECT FUNDING, IF THOSE STATES ARE TO FULFILL BASIC ROLE OF UNDERPINNING SADAT GOVERNMENT. FAILING THE PROVISION OF SUCH AID, GODE BY END OF YEAR WILL BE FORCED BACK INTO SHORT-TERM MONEY MARKET TO PAY FOR IMPORTS, THUS PROBABLY GENERATING ONCE AGAIN SEVERE LIQUIDITY PROBLEMS ONLY RECENTLY CLEARED UP. GODE RESOURCES WERE CRUCIAL ITEM IN PERMITTING RESOLUTION OF THOSE PROBLEMS OVER PAST YEAR, OF COURSE, BUT WE ARE STRUCK BY FACT THAT NO RPT NO NEW COMMITMENTS WHATEVER HAVE BEEN MADE EITHER THROUGH FULL ORGANIZATION OR BILATERALLY BY MEMBERS.

5. AMBASSADOR EXPECTS TO DISCUSS GODE FUNDING QUESTIONS LIMITED OFFICIAL USE

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WITH MINECON EL SAYEH AT EARLY DATE, ESPECIALLY WITH RESPECT TO GODE'S PLANS FOR FUTURE CONTACTS WITH ORGANIZATION. FROM WHAT WE HEAR, THOSE PLANS ARE INCHOATE AT BEST; EGYPTIANS APPARENTLY ARE NO MORE SEIZED OF NECESSITY TO -ORGE CLOSE LINKS WITH GODE LEADERS THAN HAS BEEN CASE IN PAST, EVEN WHEN DR. KAISSOUNI WAS IN OFFICE AS ECON/FINANCIAL DEPRIMIN, AND DESPITE IMPORTANCE OF GODE FUNDS TO ECONOMY. IF OCCASION PERMITS, AMBASSADOR WILL STRESS IMPORTANCE OF GODE LEADERSHIP, BOTH ECONOMIC AND POLITICAL, PURSUING MATTER WITH THEIR ARAB BRETHREN.

6. IT OCCURS TO US THAT FAILURE OF GODE OR AT LEAST SAUDIS AND KUWAITIS TO PROVIDE SOME FORM OF BOP ASSISTANCE ON TIMELY BASIS COULD HAVE SERIOUS IMPLICATIONS FOR FUTURE OF OUR OWN AID EFFORTS. OBVIOUSLY OIL-RICH ARABS HAVE NO LESS INTEREST IN MAINTENANCE OF VIABLE EGYPTIAN POLITICAL-ECONOMIC SYSTEM THAN WE. NOW IS NOT TIME FOR GODE MEMBERSHIP TO WITHDRAW FROM FRAY, LEAVING LION'S SHARE OF SUPPORT BURDEN ON U.S., OR EVEN TO BE RELUCTANT TO CARRY MAJOR SHARE OF LOAD. (IRONICALLY, PERHAPS, SITUATION AT THIS TIME IS SUCH THAT "RESIDUAL" THAT NEEDS TO BE TAKEN UP IN BOP ASSISTANCE IS CONSIDER-

ABLY LESS THAN LAST YEAR AND SHOULD PROVE MANAGEABLE
UNDER CODE RECAPITALIZATION OR OTHER MEANS DEvised TO
PROVIDE RESOURCES.)

7. ACTION REQUESTED: EMBASSY SUGGESTS THAT DEPARTMENT
INSTRUCT INFO ADDRESSESS TO PRESENT CASE FOR EARLY,
FAVORABLE CODE ACTION ON EGYPT'S OUTSTANDING REQUIREMENT
FOR ADDITIONAL IMPORT FINANCING, CITING AMONG OTHER
PERTINENT TALKING POINTS CLOSE INTEREST OF U.S. IN
QUESTION AND POSSIBLE ADVERSE EFFECT ON PROSPECTS FOR U.S.
AID, GIVEN CURRENT DOMESTIC AND LEGISLATIVE CLIMATE, IF
CODE MEMBERS ARE NOT RESPONSIVE AS SOON AS FEASIBLE.
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